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Sugar

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Report Highlights:

Post's forecast for MY 2004/05 sugar production has been revised lower to 13.6 million metric tons (MMT) on lower availability of sugarcane. MY 2003/04 sugar production has been lowered to 15.9 MMT, a 30 percent drop over last year's record production. Sugar imports for MY 2004/05 are forecast higher at 1.8 MMT.

Includes PSD Changes: Yes

Includes Trade Matrix: No

Semi-Annual Report

New Delhi [IN1]

[IN]

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SECTION I – Situation and Outlook

Note: All data are on raw-value basis unless referenced otherwise.

Production

Post has lowered its forecast centrifugal sugar production for marketing year (MY) 2004/05 to 13.6 MMT (including 745,000 tons of khandsari sugar), due to lower availability of sugarcane. Total production of centrifugal sugar in MY 2003/04 has also been revised lower to 15.5 MMT on poor cane supplies and higher than anticipated diversion of cane for production of alternative sweeteners like 'Gur.' Based on the latest figures available from the Ministry of Agriculture, sugarcane area and production for MY 2003/04 and MY 2004/05 are revised lower.

After four consecutive years of record production (MY 1999/00 to MY 2002/03) that resulted in a sugar glut, sugar production in MY 2003/04 slumped by 30 percent over the previous year due to reduced cane availability. The ongoing sugar glut situation, the poor financial condition of the sugar mills, and the delayed cane payments to the farmers resulted in a marginal shift in the sugarcane area to production of other crops. Furthermore, the sugarcane crops in the states of Maharashtra, Karnataka, Tamil Nadu, and Gujarat were severely affected by drought and infestation of the woolly aphid. The crisis was further aggravated by a higher than anticipated late-season diversion of sugarcane to produce the alternative sweetener 'gur,' due to abnormally high prices (see table 6). Last year, most of the mills closed 1-2 months earlier due to the dearth of cane for crushing.

Sugar production in MY 2004/05 is expected to decline further on reduced cane availability. MY 2004/05 cane yields are expected lower than normal due to the higher share of the 'retune' crop (lower yielding than the new planted crop), and uneven distribution of monsoon rains during summer 2004. Sources report that the woolly aphid is well under control this year. Cane supplies to the mills will be further reduced compared to last year, as the 'gur' manufacturers will draw down cane supplies right from the beginning of the season on abnormally strong 'gur' prices (currently higher than sugar prices).

The government has announced a series of measures to ease the sugar industry's financial woes. The proposal includes rescheduling or restructuring bank loans and lowering interest rates to 4.5 percent from 9 percent on loans taken from the Sugar Development Fund. These measures, coupled with strong sugar prices, have helped the sugar mills to make cane payments to farmers. Although this may not have a major impact on the current season, sugarcane area is expected to expand in the MY 2005/06 season. [Refer to IN4034 for more on India's production policy.]

Consumption

Post's consumption estimate for MY 2004/05 is revised lower to 19.2 MMT, owing to comparatively lower supplies and expected strong domestic prices. MY 2003/04 consumption has also been lowered to 19.6 MMT, in order to account for the comparatively tighter domestic supplies. The sharp decline in sugar production hiked the sugar prices during MY 2003/04 (see table 5). Existing prices of sugar in the major local markets are ranging from \$350 to 385/MT. Prices are expected to gain further by 8-10 percent during MY 2004/05.

Trade

India emerged as a net sugar importer in MY 2003/04, due to the sharp shortfall in domestic production; this status will continue in MY 2004/05. Post's forecast for MY 2004/05 imports has been revised higher to 1.8 MMT, and the estimate for 2003/04 imports increased to 0.5 MMT. The export estimate for MY 2003/04 has been revised lower to 300,000 MT, as exports came to a complete halt by the month of May.

India's imports are restricted to raw sugar brought in by the Indian mills under the 'Advance Licensing Scheme,' which allows for imports of the raw sugar at 'zero duty' against a future export commitment. The mills are allowed to refine and sell in the domestic market, but have the obligation to re-export 1.0 ton of refined sugar against every 1.05 ton of raw sugar imported within a period of 2 years. The existing high import duties and other non-tariff barriers preclude chances of imports of refined sugar.

With the domestic sugar prices rising well above international prices, many of the Indian mills found it advantageous to import raw sugar to process and sell in the domestic market. Trade sources report that about 500,000 tons of raw sugar was imported at prices ranging from \$175-210/MT, mostly from Brazil and South Africa during MY 2003/04.

The government supported imports of raw sugar to ameliorate the pending sugar shortage. In July 2004, the government withdrew all export sugar incentives that were subsidized through the Sugar Development Fund (See IN4034). Recently, the government extended the export commitment period from 18 months to 2 years. This should further encourage the Indian mills to import raw sugar so as to optimally utilize their refining facilities. However, market sources are pessimistic about the chances of Indian mills generating sufficient surpluses in the two year period to meet their export commitments, as the sugar supply situation is expected to remain tight in MY 2005/06. Although the government insists they will not waive the export commitments, industry sources expect that the government may be forced to provide some relief measures if the supply situation remains grim.

Please refer to IN4034 for more information on the Indian trade policy for sugar.

SECTION II – Statistical Tables

Table 1: Commodity, Centrifugal Sugar (raw-value basis), PSD

PSD Table							
Country:	India						
Commodity:			Sugar				
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		Oct-02		Oct-03		Oct-04	
Beginning Stocks	11670	11670	12430	12430	8300	8500	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	22140	22140	16670	15450	15880	13590	(1000 MT)
TOTAL Sugar Production	22140	22140	16670	15450	15880	13590	(1000 MT)
Raw Imports	10	10	100	500	1000	1800	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	10	10	100	500	1000	1800	(1000 MT)
TOTAL SUPPLY	33820	33820	29200	28380	25180	23890	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	1410	1410	400	300	20	20	(1000 MT)
TOTAL EXPORTS	1410	1410	400	300	20	20	(1000 MT)
Human Dom. Consumption	19980	19980	20500	19580	20700	19170	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	19980	19980	20500	19580	20700	19170	(1000 MT)
Ending Stocks	12430	12430	8300	8500	4460	4700	(1000 MT)
TOTAL DISTRIBUTION	33820	33820	29200	28380	25180	23890	(1000 MT)

Note: Stocks in PS&D include only milled sugar, as all khandsari sugar is assumed to be consumed within the production year. Virtually no centrifugal sugar is utilized for alcohol, feed and other non human consumption.

Table 2: Commodity, Sugarcane, Centrifugal, PSD

PSD Table							
Country:	India						
Commodity:	Sugar Cane Centrifugal						
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		Oct-02		Oct-03		Oct-04	(MONTH/YEAR)
Area Planted	4230	4230	4100	4100	3900	3800	(1000 HA)
Area Harvested	4230	4230	4100	4100	3900	3800	(1000 HA)
Production	282000	282000	256000	236000	240000	235000	(1000 MT)
TOTAL SUPPLY	282000	282000	256000	236000	240000	230000	(1000 MT)
Utilization for Sugar	203825	203825	158000	145000	151000	127000	(1000 MT)
Utilizatn for Alcohol	78175	78175	98000	91000	89000	103000	(1000 MT)
TOTAL UTILIZATION	282000	282000	256000	236000	240000	230000	(1000 MT)

Note: Virtually no cane is utilized for alcohol. Utilization for alcohol data include cane used for gur, seed, feed and waste. Utilization for sugar data include cane milled to produce centrifugal sugar, including khandsari.

Table 3: Sugarcane Area, Production and Utilization

YEAR	AREA/1	YIELD/1	PRODUCTION/1	SUGAR/2	KHANDSARI/3	GUR /3	SEED/3
	Mha	MT/ha	MMT	MMT	MMT	MMT	MMT
1985/86	2.86	59.99	171.68	68.977	10.481	71.621	20.602
1990/91	3.69	65.39	241.05	122.319	13.175	76.626	28.925
1995/96	4.15	68.02	282.09	174.761	10.000	67.268	30.060
2000/01	4.32	68.49	295.60	176.650	11.000	72.474	35.472
2001/02	4.43	67.74	300.10	180.320	10.500	73.264	36.012
2002/03	4.23	66.67	282.00	194.325	9.500	44.335	33.840
2003/04	4.10	57.56	236.00	134.000	11.000	62.680	28.320
2004/05 /3	3.90	58.97	230.00	115.000	12.000	75.400	27.600

Source: /1: Directorate of Economics and Statistics, Ministry of Agriculture
 /2: Indian Sugar Mills Association
 /3: FAS/New Delhi Estimate

**Table 4: Mill Sugar* Production by State in India
(in 100,000 MT crystal weight basis)**

State	2001/02	2002/03	2003/04	2004/05
	Final	Final	Revised	Revised
Andhra Pradesh	10.5	12.1	8.9	9.0
Bihar	3.4	4.1	2.8	3.0
Gujarat	10.6	12.5	10.7	11.0
Haryana	6.2	6.4	5.7	5.0
Karnataka	15.5	18.7	11.0	10.0
Maharashtra	56.1	62.2	31.7	18.0
Punjab	5.9	5.9	3.9	4.0
Tamil Nadu	18.4	16.4	8.6	9.0
Uttar Pradesh	52.6	56.5	49.4	46.0
Others	6.0	6.4	5.5	5.0
Total	185.3	201.1	138.0	120.0

Note *: Khandsari sugar not included as statewise breakdown is not available.

Source: 1. 2001/02 and 2002/03; Indian Sugar Mills Association.
 2. 2003/04 & 2004/05; Post estimates.

**Table 5: Price Table, Centrifugal Sugar
(price on actual weight basis)**

Prices Table			
Country:	India		
Commodity:	Sugar		
Year:	2004		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2003	2004	% Change
Jan	12400	13800	11.3%
Feb	12800	14600	14.1%
Mar	12600	14700	16.7%
Apr	12250	15600	27.3%
May	12300	15600	26.8%
Jun	13000	15750	21.2%
Jul	14000	16120	15.1%
Aug	13800	16700	21.0%
Sep	14100	16500	17.0%
Oct	14000		-100.0%
Nov	14000		-100.0%
Dec	12800		-100.0%
Exchange Rate	45.75	(Local currency/US \$)	
Date of Quote	9/27/2004	(MM/DD/YY)	

Source & contract terms: Indian Sugar Mills Association, month end prices in the wholesale market, Delhi.

Table 6: Price Table, Gur

Commodity:	Gur		
Year:	2004		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2003	2004	% Change
Jan	9200	1000	-89.1%
Feb	9000	11000	22.2%
Mar	9000	10750	19.4%
Apr	9500	13000	36.8%
May	10500	13500	28.6%
Jun	11250	15250	35.6%
Jul	10500	15250	45.2%
Aug	10750	1700	-84.2%
Sep	11500		-100.0%
Oct	9750		-100.0%
Nov	9000		-100.0%
Dec	11500		-100.0%
Exchange Rate	45.75	(Local currency/US \$)	
Date of Quote	9/27/2004	(MM/DD/YY)	

Source & contract terms: Indian Sugar Mills Association, month end prices in the wholesale market, Delhi.

Table 7: Price Table, Sugarcane Price – MSP and SAP (Rs./mt)

PRICE	2003/04	2002/03	2001/02
Minimum Support Price (MSP)*	730	695	621
State Advised Price for			
Uttar Pradesh	730-950	695-950	925-1000
Haryana/Punjab	960-1100	960-1100	960-1100
Southern States	730-950	695-957	642-861

*: MSP linked to a basic recovery rate of 8.5 percent. For every 0.1% increase in recovery over 8.5% basic recovery rate, an additional premium of rs.8.5/mt, rs.8.3/mt, and rs.7.3/mt paid in the MY 2003/04, 2002/03 and 2001/02, respectively.

Exchange Rate: 2001/02 (Oct/Sept) 1 US\$ = 48.0 Indian Rs.
 2002/03 (Oct/Sept) 1 US\$ = 48.5 Indian Rs.
 September 2004 1 US\$ = 45 Indian Rs.

Table 8: Levy PDS Sugar Price (Rs./Kg)

Price	2003/04	2002/03	2001/02
Levy Procurement Prices/1	12.08 - 14.64	12.1 - 13.7	11.16 - 13.03
PDS Sale Prices /2	13.50	13.50	13.25

Note:

1/ Levy sugar prices paid by the government to the sugar factories in various States.

2/ Government sale price of PDS sugar to consumers below the poverty line.

Source: National Federation of Coop Sugar Factories Ltd.